

## **EXHIBIT 1**

### **INTRODUCTION**

Respondent Riverside County Business & Property Owners Coalition (the “Riverside Coalition”) was a committee that was formed by political consultant Aaron Knox in June 1997. It qualified as a recipient committee on August 19, 1997, upon receiving contributions of \$1,000 or more, and terminated on February 5, 1998, with the filing of a statement of termination. Respondent Daralyn Reed was hired by Mr. Knox to serve as the treasurer of Respondent Riverside Coalition.

On the statement of organization for Respondent Riverside Coalition, Respondents declared that Respondent Riverside Coalition was a “state general purpose” committee, not formed to support or oppose candidates in a single election. This information was not accurate, however, as the committee existed primarily to support a group of specific candidates being voted upon the November 4, 1997 election in the City of Perris. The only activity undertaken by Respondent Riverside Coalition during its brief existence was to make voter contact and send a campaign mailer supporting the candidacies of Al Landers, Raul Mark Yarbrough, and Cecilia Larios in the November 4, 1997 election. Al Landers was a candidate for mayor in the City of Perris, and Raul Mark Yarbrough and Cecilia Larios were candidates for Perris City Council.

In 1997, Respondents received contributions, totaling approximately \$4,300, from 19 contributors, and spent a like amount to support the three above-named Perris candidates. None of this information was readily available to the voters of the City of Perris, as Respondents improperly filed a semi-annual campaign statement for Respondent Riverside Coalition with the Riverside County Registrar of Voters, and not with the Perris City Clerk.

For the purposes of this Stipulation, Respondents’ violations of the Political Reform Act (the “Act”)<sup>1</sup> are stated as follows:

**COUNT 1:** Respondents Riverside County Business & Property Owners Coalition and Daralyn Reed failed to file an amended statement of organization, within ten days of a change in the primary activity of Respondent Riverside County Business & Property Owners Coalition, in violation of Section 84103, subdivision (a).

**COUNT 2:** Respondents Riverside County Business & Property Owners Coalition and Daralyn Reed failed to file a semi-annual campaign statement, for the reporting period January 1 through December 31, 1997, in the correct location, in violation of Section 84215, subdivision (e).

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<sup>1</sup> The Political Reform Act is contained in Government Code sections 81000 through 91014. All statutory references are to the Government Code, unless otherwise indicated. The regulations of the Fair Political Practices Commission are contained in sections 18109 through 18997 of Title 2 of the California Code of Regulations. All regulatory references are to Title 2, Division 6 of the California Code of Regulations, unless otherwise indicated.

## **SUMMARY OF THE LAW**

An express purpose of the Act, as set forth in Section 81002, subdivision (a), is to ensure that the contributions and expenditures affecting election campaigns are fully and truthfully disclosed to the public, so that voters may be better informed, and so that improper practices may be inhibited. To that end, the Act sets forth a comprehensive campaign-reporting scheme to accomplish the purpose of disclosure.

### **Duty to File a Statement of Organization**

Under the Act's campaign reporting system, candidates and committees are required to file periodic campaign statements and reports disclosing their financial activities. Section 82013, subdivision (a) defines a committee as any person or combination of persons who directly or indirectly receives contributions totaling \$1,000 or more in a calendar year. This type of committee is commonly referred to as a "recipient" committee.

Section 84101, subdivision (a) requires a recipient committee to file a statement of organization, within ten days of qualifying as a committee.

Section 84102, subdivision (d) requires that in the statement of organization, a recipient committee must provide the full name and office sought by any candidate and the title and ballot number, if any, of any measure, which the committee supports or opposes as its primary activity. The same subsection requires a recipient committee which does not support or oppose one or more candidates or measures as its primary activity to provide, in the statement of organization, a brief description of the committee's political activities, including whether it supports or opposes candidates or measures, and whether such candidates or measures have common characteristics.

Whenever there is a change in any of the information in a statement of organization, Section 84103, subdivision (a) requires a recipient committee to file an amendment, within ten days to reflect the change.

### **Duty of File Semi-Annual Campaign Statement**

Section 84200, subdivision (a) requires recipient committees to file semi-annual campaign statements. The first semi-annual statement covers the reporting period January 1 to June 30, and must be filed by July 31. The second semi-annual statement covers the reporting period July 1 to December 31, and must be filed by January 31 of the following year. Whenever either of the filing deadlines fall on a Saturday, Sunday, or legal holiday, Regulation 18116 extends the filing deadline to the next regular business day.

Section 82046, subdivision (b) defines "period covered" by a campaign statement to mean the period beginning on the date of the last statement required to be filed, and ending with the closing date of the statement in question. If no previous campaign statement has been filed, the period covered begins on January 1.

### **Duty to File Campaign Reports and Statements at Specified Locations**

There are different varieties of recipient committees under the Act. The nature of the recipient committee dictates where the committee shall file its campaign statements and reports.

A recipient committee that supports or opposes a group of specific candidates in the same city election as its primary activity, is described, as provided in Section 82047.5, subdivision (c), as a “primarily formed committee.” Section 84215, subdivision (e) requires every committee that is formed or exists primarily to support or oppose a group of candidates voted upon in one city to file the committee’s campaign statements with the clerk of the city.

A recipient committee that supports or opposes candidates or measures voted on in a state election, or in more than one county, as its primary activity, is described, as provided in Section 82027.5, subdivision (b), as a “state general purpose committee.” Section 84215, subdivision (a) requires every state general purpose committee to file the committee’s campaign statements with the office of the Secretary of State, the Registrar-Recorder of Los Angeles County, and with the Registrar of Voters of the City and County of San Francisco.

A recipient committee that supports or opposes candidates voted on in only one county, or in more than one jurisdiction within one county, as its primary activity, is described, as provided in Section 82027.5, subdivision (c), as a “county general purpose committee.” Section 84215, subdivision (d) requires every county general purpose committee to file the committee’s campaign statements with the clerk of the county.

#### Duties and Liabilities of Committee Treasurers

Under Sections 81004, subdivision (b) and 84100, and Regulation 18427, subdivision (a), it is the duty of a committee’s treasurer to verify the accuracy and completeness of a committee’s campaign statements, and to use all reasonable diligence in the preparation and filing of such statements. To fulfill these duties, a committee treasurer is required to take steps to ensure that the committee complies with all of the requirements of the Act concerning the receipt and expenditure of funds, and the reporting of such funds. Sections 83116.5 and 91006 provide that a committee’s treasurer may be jointly and severally liable, along with the committee, for any reporting violations committed by the committee.

### **SUMMARY OF THE FACTS**

COUNT 1: Respondents Riverside County Business & Property Owners Coalition and Daralyn Reed failed to file an amended statement of organization within ten days of a change in the primary activity of Respondent Riverside County Business & Property Owners Coalition, in violation of Section 84103, subdivision (a).

Respondents filed a statement of organization, on June 27, 1997, that declared Respondent Riverside Coalition was intending to act as a “state general purpose committee,” whose primary purpose was to support or oppose candidates representing Riverside County, if and when it qualified as a recipient committee.

Respondent Riverside Coalition qualified as a committee on August 19, 1997. Respondents filed an amended statement of organization, on August 20, 1997, declaring that Respondent Riverside Coalition was a “state general purpose committee,” whose primary purpose was to support or oppose candidates representing Riverside County.

Even if Respondent Riverside Coalition intended to act as a “state general purpose committee” when it formed and subsequently qualified as a recipient committee, its primary purpose to promote a slate of candidates in the City of Perris became apparent at a later date. On or about and between September 11 and October 28, 1997, it became apparent that the primary purpose of Respondent Riverside Coalition was to support a slate of candidates being voted upon in the November 4, 1997 election in the City of Perris. The candidates were Al Landers for Mayor of Perris, and Raul Mark Yarbrough and Cecilia Larios for Perris City Council.

The only expenditures made by Respondent Riverside Coalition, apart from administrative expenses, were to obtain voter data for the City of Perris, on September 11, 1997, and to conduct a voter contact drive and send a mailer supporting candidates, Al Landers for Perris mayor, and Raul Mark Yarbrough and Cecilia Larios for Perris City Council, on or about October 21-28, 1997.

The only contributions received by Respondents, after September 11, 1997, were solicited by Colin Flaherty, a public relations consultant for Barratt American Homes, a developer that had a project pending in the City of Perris at the time.<sup>2</sup> The contributions were solicited for the purpose of sending a mailer supporting City of Perris candidates Al Landers, Raul Mark Yarbrough, and Cecilia Larios in the November 4, 1997 election.

After the Perris election on November 4, 1997, Respondent Riverside Coalition conducted no further campaign activity. Respondents filed a Statement of Termination, on February 5, 1998, listing the effective date of termination as December 31, 1997.

At no time did Respondents make any expenditures supporting or opposing candidates or measures voted on in a state election, or in any county outside of Riverside County. Respondents did not even make expenditures supporting or opposing candidates representing Riverside County.

Respondents were therefore required, by Section 84103, subdivision (a), to file an amended statement of organization within ten days to reflect the change in the primary purpose of Respondent Riverside Coalition from a “state general purpose committee.” Respondents failed to file an amended statement of organization at any time between, or within ten days of, September 11 and October 28, 1997, to reflect that Respondent Riverside Coalition was a “primarily formed committee” to support the election of Al Landers for Mayor of Perris, and Raul Mark Yarbrough and Cecilia Larios for Perris City Council.

Respondents have not filed an amended statement of organization at any subsequent time.

Aaron Knox was the founder of Respondent Riverside Coalition. According to Mr. Knox, he hired Respondent Daralyn Reed because he wanted a professional treasurer for the committee.

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<sup>2</sup> In a Default, Decision and Order entered September 3, 2003, the Commission imposed a \$76,000 administrative penalty against Colin Flaherty for laundering campaign contributions to, among others, Respondent Riverside Coalition. (*In the Matter of Colin Flaherty*, FPPC No. 99/783.)

He determined the type of committee Respondent Riverside Coalition was to be in June 1997, before Respondent Riverside Coalition qualified as a committee, based on the information or “options” that Respondent Reed gave him.

Respondent Reed has been a professional treasurer since 1975, and was the treasurer for Respondent Riverside Coalition. Other than writing checks to the vendors, Respondent Reed appears to have known very little of the activities of Respondent Riverside Coalition, although she was kept abreast of developments, such as the decision to get involved in the Perris City election and to send the mailer supporting Perris candidates. Respondent Reed told Commission investigators that she considered herself a “ministerial” treasurer,<sup>3</sup> and would not have been the person to decide the type of committee, for purposes of filing a statement of organization. According to Respondent Reed, she relied on Mr. Knox’s representations regarding the purposes of Respondent Riverside Coalition, and did not monitor its activities to determine if those purposes had changed. After performing a simple facial examination of Respondent Riverside Coalition’s campaign statements, she readily admitted that Respondent Riverside Coalition was not a “statewide general purpose committee,” and that the declaration on the statements of organization was obviously an error.

By failing to file an amended statement of organization within ten days of the change in the primary activity of Respondent Riverside Coalition, Respondents violated Section 84103, subdivision (a).

COUNT 2: Respondents Riverside County Business & Property Owners Coalition and Daralyn Reed failed to file a semi-annual campaign statement, for the reporting period January 1, 1997 through December 31, 1997, in the correct location (City of Perris), in violation of Section 84215, subdivision (e).

Respondents were required, by Section 84200, subdivision (a) to file semi-annual campaign statements on behalf of Respondent Riverside Coalition during each year of the committee’s existence. As Respondent Riverside Coalition was only in existence for a five-month period, Respondents were required to file a single semi-annual campaign statement disclosing the financial activity of Respondent Riverside Coalition during 1997.

As Respondent Riverside Coalition was a “primarily formed committee” to support the election of a specific group of candidates in the City of Perris, Respondents were required, by Section 84215, subdivision (d), to file the semi-annual campaign statement of Respondent committee with the Perris City Clerk.

Respondents failed to file a semi-annual campaign statement disclosing the financial activity of Respondent Riverside Coalition during 1997, with the Perris City Clerk, by the February 2, 1998 due date.

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<sup>3</sup> Respondent Reed’s view of her responsibilities as a committee treasurer is a passive one, and consists of opening and maintaining a campaign bank account, receiving contributions and making deposits, paying bills, maintaining records, and preparing and filing all required campaign disclosure reports.

By failing to file a semi-annual campaign statement with the Perris City Clerk, by February 2, 1998, disclosing the financial activity of Respondent Riverside Coalition during 1997, Respondents violated Section 84200, subdivision (a).

Respondents filed a semi-annual campaign statement, covering the period January 1 through December 31, 1997, with the Riverside County Registrar of Voters, on February 4, 1998. The statement revealed that during a five month period in 1997, Respondents received contributions, totaling approximately \$4,300, from 19 contributors, and spent a like amount to support City of Perris candidates Al Landers, Raul Mark Yarbrough, and Cecilia Larios.

At no time have Respondents filed a semi-annual campaign statement, disclosing the financial activity of Respondent Riverside Coalition during 1997, with the Perris City Clerk.

### **CONCLUSION**

Respondent Daralyn Reed is a long-time professional treasurer, who possessed the knowledge and experience to comply with the campaign reporting provisions of the Act. Respondent Reed's failure to use all reasonable diligence in the preparation and filing of campaign statements led to the failure by Respondent Riverside Coalition to accurately describe its primary activity on its statement of organization.

The inaccurate disclosure on the statement of organization, in turn, led to the failure by Respondents to file a semi-annual campaign statement with the Perris City Clerk. As a result of the classification of Respondent Riverside Coalition as a state general purpose committee, none of the information regarding the financial activity of Respondent Riverside Coalition was readily available to the voters of the City of Perris. This is particularly significant as the candidates supported by Respondent Committee were elected to office.

While in this instance Respondent Reed failed to diligently exercise her duties, as set forth in Regulation 18427, she has no history of previously being prosecuted for violations of the Act in over twenty-five years of serving as a treasurer.

This matter consists of two counts, which carry a maximum administrative penalty of Four Thousand Dollars (\$4,000).

The facts of this case, including the factors discussed above, justify imposition of the agreed upon penalty of Four Thousand Dollars (\$4,000).